

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2014 and 2013

ASSETS	2014	2013
Current Assets:		
Cash and cash equivalents	\$ 23,156	\$ 56,579
Accounts receivable, less provision for doubtful accounts of \$12,000 at December 31, 2014 and 2013	940,375	981,532
Materials and supplies	165,122	185,096
Prepaid expenses	81,206	119,187
Marketable securities	75	112
Total Current Assets	1,209,934	1,342,506
Other Assets and Investments:		
Investments	1,764,798	1,834,673
Other assets	1,600	2,000
Deferred income taxes	-	129,817
Total Other Assets and Investments	1,766,398	1,966,490
Property, Plant, and Equipment:		
Regulated plant in service	30,229,665	31,880,031
Nonregulated plant in service	11,613,497	11,445,446
	41,843,162	43,325,477
Less accumulated depreciation	27,191,388	27,640,136
Property, Plant, and Equipment, net	14,651,774	15,685,341
	\$ 17,628,106	\$ 18,994,337

LIABILITIES AND MEMBERS' EQUITY	<u>2014</u>	<u>2013</u>
Current Liabilities:		
Current portion of long-term debt	\$ 1,564,339	\$ 1,469,596
Current portion of capital lease obligation	39,114	-
Line of credit payable	1,969,986	200,000
Accounts payable	685,606	311,372
Bank overdraft	204,525	-
Advance billing and customer deposits	452,772	282,450
Income taxes payable	713	562
Accrued expenses	515,509	2,338,350
Deferred revenue	-	42,500
Total Current Liabilities	<u>5,432,564</u>	<u>4,644,830</u>
Long-Term Liabilities:		
Long-term debt	6,254,286	7,818,798
Capital lease obligation	111,250	-
Other long-term liabilities	<u>61,465</u>	<u>3,368</u>
Total Long-Term Liabilities	<u>6,427,001</u>	<u>7,822,166</u>
Members' Equity:		
Controlling Interest		
Memberships and other equities	86,822	99,072
Patronage capital	5,741,597	6,516,704
Accumulated other comprehensive loss	<u>(25,478)</u>	<u>(25,441)</u>
Total Controlling Interest	5,802,941	6,590,335
Noncontrolling Interest	<u>(34,400)</u>	<u>(62,994)</u>
Total Members' Equity	<u>5,768,541</u>	<u>6,527,341</u>
	<u>\$ 17,628,106</u>	<u>\$ 18,994,337</u>

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidated Statements of Operations

Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues:		
Local network services	\$ 1,248,855	\$ 1,439,540
Network access services	3,034,359	3,360,627
Miscellaneous operating	427,784	410,135
Internet	1,646,114	1,681,508
Long distance	96,166	84,701
Wireless	213,659	177,604
Cable television	1,587,361	1,424,570
Ad insertion and related revenues	52,261	88,598
Total Operating Revenues	<u>8,306,559</u>	<u>8,667,283</u>
Operating Expenses:		
Plant specific	1,233,784	1,573,159
Plant nonspecific	914,481	410,078
Customer	806,441	882,561
Corporate	953,943	998,800
Depreciation and amortization	1,650,694	1,656,633
Other taxes	190,909	225,817
Internet	722,591	777,130
Long distance	242,962	199,138
Wireless	202,249	253,200
Cable television	1,341,799	1,300,703
Ad insertion and related costs	19,226	44,562
Other nonregulated expenses	66,113	42,242
Total Operating Expenses	<u>8,345,192</u>	<u>8,364,023</u>
Operating Margin (Loss)	<u>(38,633)</u>	<u>303,260</u>
Other Income (Expense)		
Interest and dividend income	48,330	149,861
Other income (expense), net	(2,825)	25,975
Interest expense	(619,740)	(780,444)
Income tax expense	(130,287)	(839)
Total Other Expense, net	<u>(704,522)</u>	<u>(605,447)</u>
Loss Before Noncontrolling Interest	(743,155)	(302,187)
Noncontrolling Interest	<u>(28,594)</u>	<u>(697)</u>
Net Loss	<u>\$ (771,749)</u>	<u>\$ (302,884)</u>

See accompanying notes to consolidated financial statements.

BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Net Loss	\$ (771,749)	\$ (302,884)
Other Comprehensive Loss:		
Unrealized income (loss) on marketable securities	<u>(37)</u>	<u>18</u>
Total Comprehensive Loss	<u>\$ (771,786)</u>	<u>\$ (302,866)</u>

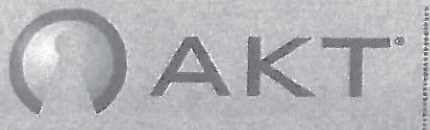
BEAVER CREEK COOPERATIVE TELEPHONE COMPANY AND SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Net loss	\$ (771,749)	\$ (302,884)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,650,694	1,656,633
Loss attributable to noncontrolling interest	28,594	697
Noncash patronage	(39,527)	(114,154)
Loss on sale of assets	-	124,712
Gain on investments	-	(812)
Change in deferred taxes	129,817	372
Changes in assets and liabilities:		
Accounts receivable	41,157	366,625
Materials and supplies	19,974	(5,951)
Prepaid expenses	37,981	25,359
Accounts payable	374,234	(373,055)
Bank overdraft	204,525	-
Accrued expenses	(1,822,841)	408,395
Income taxes payable	151	456
Advanced billing and customer deposits	170,322	(10,524)
Deferred revenue	(42,500)	7,066
Other long-term liabilities	58,097	(8,281)
Net Cash Provided by Operating Activities	<u>38,929</u>	<u>1,774,654</u>
Cash Flows from Investing Activities:		
Capital expenditures	(448,739)	(496,877)
Purchase of investments	(28,532)	(45,790)
Proceeds from investments	<u>137,934</u>	<u>177,131</u>
Net Cash Used by Investing Activities	\$ <u>(339,337)</u>	\$ <u>(365,536)</u>

	<u>2014</u>	<u>2013</u>
Cash Flows from Financing Activities:		
Change in line of credit	\$ 1,769,986	\$ -
Principal payments on long-term debt	(1,469,769)	(1,418,187)
Principal payments on capital lease obligation	(17,624)	(111,532)
Change in memberships	(12,250)	(10,299)
Patronage capital paid, net	<u>(3,358)</u>	<u>(5,286)</u>
Net Cash Provided (Used) by Financing Activities	<u>266,985</u>	<u>(1,545,304)</u>
Net Decrease in Cash and Cash Equivalents	(33,423)	(136,186)
Cash and Cash Equivalents, beginning	<u>56,579</u>	<u>192,765</u>
Cash and Cash Equivalents, ending	\$ <u><u>23,156</u></u>	\$ <u><u>56,579</u></u>
Cash Paid During the Year for Interest	\$ <u><u>620,908</u></u>	\$ <u><u>788,859</u></u>
Cash Paid During the Year for Taxes	\$ <u><u>450</u></u>	\$ <u><u>11</u></u>
Non-cash Acquisition of Property, Plant and Equipment Through Capital Leases	\$ <u><u>167,988</u></u>	\$ <u><u>-</u></u>



CPAS AND BUSINESS CONSULTANTS

Personal Local Global

Beaver Creek Cooperative Telephone Company
SAC 532359
Program Year: 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Beaver Creek Cooperative Telephone Company and Subsidiary
Oregon City, Oregon

We have audited the accompanying consolidated financial statements of Beaver Creek Cooperative Telephone Company (an Oregon cooperative corporation) and Subsidiary (the Company), which comprise the consolidated balance sheet as of December 31, 2014, and the related consolidated statements of operations, comprehensive income, changes in members' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Beaver Creek Cooperative Telephone Company and Subsidiary as of December 31, 2014, and the results of their operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PRIOR PERIOD FINANCIAL STATEMENTS

The consolidated financial statements of Beaver Creek Cooperative Telephone Company and Subsidiary as of December 31, 2013, were audited by other auditors whose report dated April 10, 2014, expressed an unmodified opinion on those statements.

AKT LLP

Salem, Oregon
May 28, 2015

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